VERDENCE / FAMILY

Donor-Advised Funds for Complex Wealth

A practical guide for families planning significant charitable gifts

By Carol Hopkins, Family Office Strategist

Many families we work with come to charitable planning the same way. The intent has been there for years. What changes is the moment when giving stops fitting on a personal balance sheet and starts requiring a structure. This could be a liquidity event. A concentrated stock position that needs to be unwound. A generation of children old enough to take part in the decisions. A tax year that demands a serious deduction.

A donor-advised fund is often the first structure families consider, and for good reason. It is flexible, tax-efficient, and far less administratively heavy than a private foundation. It also has limits worth understanding.

This paper walks through how DAFs work, the tax treatment, the case for and against, and the questions worth asking before opening one.

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What Is a Donor-Advised Fund?

A DAF is a separately identified account inside a sponsoring public charity. Sponsors include large national charities such as Fidelity Charitable, Schwab Charitable, and Vanguard Charitable, community foundations, and certain single-issue charities.

Once you contribute, the assets legally belong to the sponsor. You retain advisory privileges, which means you recommend how the funds are invested and which charities receive grants. You can name the account, name successor advisors, and include children or grandchildren in the decisions. Many sponsors allow the account to continue across generations.

What Problem Does a DAF Solve?

Families with significant charitable intent already know they want to give. The harder problem is how to give in a way that handles complex assets, captures the deduction in the right year, and creates a framework the next generation can step into.

A donor advised fund handles most of this. It is one of the more practical charitable structures available, and for most families with serious giving plans, it earns a place in the strategy. This paper explains how DAFs work, the tax treatment, the trade-offs to weigh, and the questions worth asking before opening one.

How Does a DAF Work?

In practice, a DAF works in three steps.

You Contribute.
You can contribute cash, publicly traded securities, and in many cases privately held business interests or real estate. The sponsor accepts the asset and sells it as needed. You receive a charitable deduction in the year of the gift.

The Sponsor Invests the Funds.
You choose from the sponsor's available investment pools or, with larger balances, a separately managed account aligned with your broader portfolio. Investment growth inside the DAF is not taxed.

You Recommend Grants.
You direct the sponsor to make grants to qualified 501(c)(3) public charities. Federal law sets no required timeline for distribution. Some sponsors set their own minimum activity policies.

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What Are the Tax Benefits?

DAFs offer four primary tax advantages.

Income Tax Deduction in the Year of Contribution. Cash gifts are deductible up to 60% of adjusted gross income. Long-term appreciated assets are deductible up to 30% of AGI at fair market value. Unused deduction amounts carry forward for five years. For families in liquidity-event years, this carryforward is often the most important feature of the structure.

Capital Gains Tax Avoidance on Appreciated Assets. When you contribute long-term appreciated securities or other property directly to a DAF, neither you nor the sponsor pays capital gains tax on the embedded appreciation. The full pre-tax value supports your charitable goals.

Tax-Free Growth Inside the Account. Investment returns accumulate without current income tax. Over a long grant horizon, tax-free compounding may result in more dollars available for charity than holding the same assets in a taxable account.

Estate and Gift Tax Efficiency. Contributions reduce your taxable estate. The income tax deduction applies in the year you contribute, and grants can be distributed over any horizon you choose. The timing of the tax benefit and the timing of charitable impact can run on separate clocks.

The advantages are most pronounced in high-income years. Common examples include the sale of a business, a large bonus or partnership distribution, the vesting of restricted stock, or an unusually strong investment year. A DAF lets you concentrate a deduction into one year while spreading charitable activity over many.

Why Should I Use a DAF?

A DAF can simplify and improve a charitable plan in several ways.

Record-keeping is consolidated. One receipt for the contribution covers all subsequent grants, regardless of how many charities receive funds.

The deduction is separated from the grant decision. You can claim a large deduction in a high-income year and take time to identify the charities and causes you want to support.

Complex assets are accepted by many sponsors. Restricted stock, private company shares, real estate, and similar non-cash holdings can often be contributed to a DAF when individual charities cannot easily process them.

Family members can take part. Successor advisors, joint accounts, and naming conventions allow children and grandchildren to participate in charitable decisions and learn how the family approaches giving.

Costs are lower than a private foundation. Sponsor fees and investment costs are typically less than the legal, accounting, and administrative costs of operating a private foundation. There are no separate tax filings, no required annual distribution percentage, and no excise tax on investment income.

Grants can be made anonymously when privacy matters.

What Are the Limitations of a DAF?

Contributions are irrevocable. Once funds enter the account, they cannot be returned. The asset legally belongs to the sponsor, even though you retain advisory privileges.

You give up legal control. You recommend grants, but final authority rests with the sponsoring organization, which can decline grants that fall outside its guidelines.

Grants can only go to qualified public charities. DAFs generally cannot fund private foundations, individuals, scholarships paid directly to recipients, or grants in exchange for goods or services. If part of a payment buys you something of value, like a gala ticket, only the charitable portion qualifies, and DAFs generally cannot fund this kind of split payment at all.

Some contributions are restricted. Qualified Charitable Distributions from an IRA cannot be directed to a DAF. Federal law prohibits it.

Sponsor policies vary. Investment lineups, grant minimums, account minimums, fees, and successor rules differ across sponsors. Choosing the right sponsor is its own planning question.

There is no federal payout requirement. Some sponsors set voluntary activity minimums, but federal law does not require annual distributions. We generally recommend that clients commit to a self-imposed grant rate, often around 5% annually, so charitable intent stays active across years.

The rules may change. DAFs have drawn legislative attention in recent years, including proposals to impose payout requirements similar to private foundations. Families committing meaningful capital should plan for the rules they have now while staying aware that the rules can shift.

Customization has limits. Families with multi-year program commitments, international grant-making outside the sponsor's approved list, or program-related investments may find a DAF too restrictive. In those situations, a different structure such as a private foundation may fit better.

How Should Wealthy Families Approach This?

For families with meaningful charitable intent and complex finances, the structural questions are usually the interesting ones. A DAF can anchor a charitable plan, sit alongside other tools, or serve as the bridge to a more permanent structure later.

A few questions help clarify the role a DAF should play.

How Concentrated Is Your Income Year to Year?

If a significant liquidity event is on the horizon, the year of that event is often the right time to fund a DAF. A large contribution in a high-income year captures the deduction at the highest marginal rate. The 5-year carryforward allows you to claim what you cannot use immediately. For founders, executives, and partnership stakeholders, this single move can be one of the highest-leverage tax decisions of the year.

Are You Funding Before or After a Sale?

For owners preparing for a liquidity event, contributing private company stock to a DAF before the sale closes is materially different from contributing cash afterward. Before the sale, the position still carries valuation discounts for lack of marketability and minority interest, and the eventual sale proceeds bypass capital gains tax inside the DAF. After the sale, the cash you would contribute has already been taxed. The pre-sale window is short and requires careful coordination with counsel, but the difference in charitable dollars produced can be substantial.

Do You Have a Concentrated Stock Position?

Executives and founders often face a low-basis concentrated holding they want to diversify. A DAF can absorb the highest-appreciation shares while a charitable remainder trust handles other portions, leaving cash and lower-gain positions for other uses. The structure of the unwind matters more than people expect.

Are You Considering a DAF, a Private Foundation, or Both?

Many of the families we work with run both. A foundation provides permanence, program control, the ability to fund individuals through scholarship programs, and a vehicle for formal family governance roles. A DAF handles anonymous gifts, flexible timing, and complex non-cash assets that a foundation cannot easily process. The two structures complement each other more often than they substitute for each other, and treating them as competitors usually leads to the wrong answer.

How Involved Do You Want Family Members to Be?

Successor advisors, joint accounts, and family meetings around grant decisions shape how the next generation learns to give. The harder questions tend to surface later. Which children become advisors. How decisions get made when family members disagree. Whether the DAF is the family's primary teaching vehicle or one piece of a larger governance structure. We generally encourage families to address these questions while the founding generation is active.

Which Sponsor Fits?

National sponsors offer scale, low minimums, broad investment lineups, and efficient processing of complex assets. Community foundations offer local knowledge, on-the-ground grant-making support, and a more relational approach to philanthropy. Single-issue sponsors fit families with a clear cause focus. We help clients weigh these trade-offs against their specific goals, time horizons, and the kinds of assets they plan to contribute.

What Is Your Grant Horizon?

Families who plan to distribute the full amount within a defined period can use a DAF to time the deduction and the grants. Families who want to build a permanent institution may need a different structure, or a combination.

Frequently Asked Questions

Can I Take My Contribution Back if My Situation Changes?

No. Once you contribute, the assets legally belong to the sponsoring organization. This is the most important fact to internalize before funding a DAF.

How Long Do I Have to Grant the Money Out?

Federal law sets no deadline. Some sponsors set minimum activity policies. We generally recommend a self-imposed annual grant rate so balances stay active across years.

Can I Use My DAF to Pay a Pledge I Made Personally?

Current IRS guidance generally permits DAF grants to satisfy a personal charitable pledge under specific conditions. The rules are technical and worth confirming with your tax advisor before relying on this approach.

What Is the Minimum Balance to Open a DAF?

National sponsors typically have no minimum or a small one. Community foundations often start at $10,000 to $25,000. Sponsors that handle complex assets through separately managed accounts usually set higher minimums.

Can I Give to a Private Foundation Through My DAF?

Generally, no. DAFs are restricted from granting to private foundations, with narrow exceptions. This restriction is one reason families that operate both structures use them for different purposes.

What Happens to My DAF When I Die?

You can name successor advisors, often across multiple generations. You can also direct that the remaining balance be granted to specific charities, transferred to your private foundation if you have one, or rolled into the sponsor's endowment.

Can My DAF Support a Scholarship for a Specific Student?

No. DAFs cannot make grants that benefit a specifically named individual. They can fund scholarship programs operated by qualified charities that select recipients independently.

Can I Receive Any Benefit From a DAF Grant, Like a Gala Ticket?

No. DAF grants cannot include a quid pro quo benefit, even a small one. If you want to attend a benefit event, handle the ticket cost personally and use the DAF only for any clearly separable charitable portion the host charity confirms is eligible.

Can I Name My DAF After My Family?

Yes. Most sponsors allow you to name the account, often with the family name and "fund," "foundation," or "trust" in the title. The name appears on grant letters if you choose, or grants can be anonymous

How Does Verdence Help?

Verdence works with clients to integrate charitable planning into a much larger wealth strategy. We coordinate with your tax and legal advisors on which assets to give, which sponsor fits your goals, and how to time the grants. Our role is to align your charitable plan with the rest of your financial life.

If a DAF is the right tool, we help you set it up, fund it, invest it, and manage grants over time. If a different vehicle fits better, we tell you. Verdence is a fiduciary. We are legally required to act in your interest.

About the Author:
Carol Hopkins is a senior member of the Verdence/FAMILY team and holds a Juris Doctor (JD). She spent more than a decade at Frank, Bernstein, Conaway & Goldman and held senior roles at Mercantile Safe Deposit & Trust Company and Hawthorn PNC Private Bank. Across those firms, she administered substantial multi-generational trusts and estates, working closely with the families behind them on the legal, tax, and personal dynamics that shape how wealth moves across generations. At Verdence, Carol brings that experience to the firm's most complex family office relationships, where the planning questions run alongside questions about governance, succession, and family.

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IMPORTANT DISCLOSURES

Donor advised fund rules, deduction limits, and tax treatment are subject to change. Consult your tax advisor for guidance specific to your situation.

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